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Housing the Working Poor

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Recommended Citation

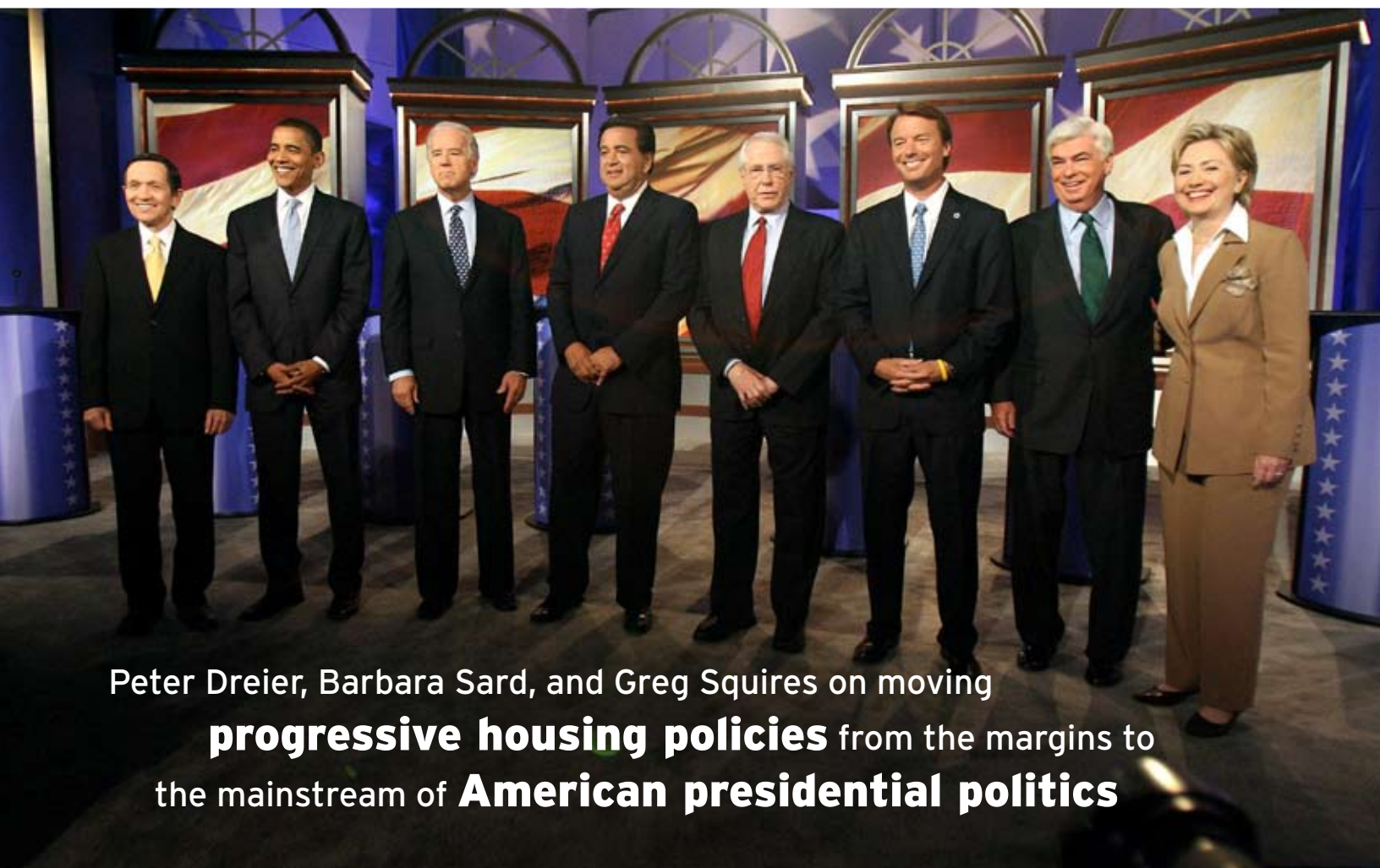
Dreier, Peter. "Housing the Working Poor." Shelterforce. Fall 2007.

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SHELTERFORCE

The journal of affordable housing and community building FALL 2007

Poised for Change



Peter Dreier, Barbara Sard, and Greg Squires on moving
progressive housing policies from the margins to
the mainstream of **American presidential politics**

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grows in post-Katrina
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Housing the Working Poor

By Peter Dreier



What big ideas should housing activists put forward to the next president and Congress?

Assuming that a Democrat wins the White House and that the Democrats hold onto or even expand their majority in Congress, housing advocates have an opening to promote a progressive agenda. Are we ready?

FOR MORE THAN TWO decades—under Presidents Reagan, Bush, Clinton, and now Bush—housing activists have had to settle for crumbs. For the most part, they fought defensive battles to protect existing federal programs within the Department of Housing and Urban Development (HUD), such as public housing, Section 8 vouchers, HOME, and various funding schemes for the homeless.

Housing activists hope that the next president and Congress will increase the HUD budget—for example, by creating a national housing trust fund. But even the most ambitious proposal so far—presidential candidate John Edwards' call for adding a million new housing vouchers—is still a relatively small, incremental increase compared to the need. In contrast, all the Democratic presidential hopefuls are advocating a significant expansion of the Earned Income Tax Credit (EITC), the wage supplement for the working poor that has become, without much fanfare, the nation's most effective anti-poverty program.

Last year, more than 22 million working American families received more than \$41 billion in EITC benefits. In contrast, only 5.5 million low-income households receive any federal housing assistance (mostly from HUD but a small number from the Department of Agriculture's Rural Housing Service). The EITC is an entitlement. HUD programs—including Section 8 vouchers—are a lottery, available only to a lucky few.

What lessons should housing activists learn from these realities? Perhaps we should find a way to combine the best aspects of HUD's largest program (Section 8 vouchers) with the popularity and efficiency of the EITC.

This isn't a new idea, but it hasn't received much attention since it was first proposed in 2001 by the late Cushing Dolbeare, founder of the National Low Income Housing Coalition, and expanded upon three years later by Michael Stegman, a University of North Carolina professor who served as assistant secretary for policy development and research at HUD during the Clinton administration, and two of his UNC colleagues, Walter Davis and Robert Quercia. Their idea to use the EITC as a way to expand federal housing subsidies for the working poor deserves a second look.

This is the right moment to advance an aggressive strategy to help house the working poor. The nation's political climate is changing as greater numbers of Americans recognize the negative consequences of deepening economic disparities and persistent poverty. Public opinion polls show that an increasing number of Americans support policies to lift people out of poverty and improve living conditions for the poor. Ironically, one reason for this shift is the change in the way poor people are viewed in the wake of welfare reform, initially adopted with considerable controversy in 1996. Increasingly, "poverty" in America has

become identified with low-wage workers, whom Americans seem to believe are more "deserving" than those on welfare. Another reason is the widening class divide, especially between the rich and everyone else—a problem that Edwards has called the "two Americas."

EITC Basics

The EITC was created in 1975 as part of the public debate during the Nixon era about providing a guaranteed minimum income for all Americans. The initial program was quite small; in 1975, it served only 6.2 million families and provided a credit up to \$400. Since then, it has been extremely popular with most Democrats and many Republicans. President Ronald Reagan, President George H.W. Bush, and President Bill Clinton all praised it. Congress increased the EITC—raising benefit levels and expanding eligibility criteria—several times in the 1980s and 1990s. In 1993, President Clinton and Congress doubled the size of the EITC as part of his plans to cut welfare and to "make work pay."

In 1999, George W. Bush, then the governor of Texas, criticized GOP proposals to cut the EITC, saying that he didn't think "we ought to balance the budget on the backs of the poor." As president, however, Bush bowed to pressure from right-wing Republicans to get the IRS to increase its auditing of low-income Americans who filed for EITC benefits while simultaneously reducing its monitoring of wealthy taxpayers.

On its own, by providing families additional income, the EITC already helps ease the housing cost burdens of the working poor. But even with the additional money from EITC, most working-poor families still spend more than 30 percent of their incomes—and some spend over half their incomes—for housing.

Why is this? One of the EITC's shortcomings is that the benefit levels are the same across the country, even though the cost of living—especially housing—varies dramatically in different metropolitan areas. For example, according to HUD, the fair-market rent for two-bedroom apartments in greater Los Angeles is \$1,189, compared with \$950 in greater Baltimore, and \$613 in the Jackson, Miss., area. To address these disparities, Dolbeare, and then Stegman and his colleagues, proposed adjusting EITC benefit levels to help working families pay for housing. If adopted, this change would go a long way to improving the housing conditions of the nation's low-income working families.

The EITC helps workers in low-paying jobs (earning up to \$38,348) to support themselves and their families. It reduces tax burdens and supplements wages for low-income working families, especially those with children. Under the EITC formula for 2006, for example, a single parent with two or more kids who earns \$20,000 would

receive \$3,859. A married worker with two or more kids earning \$35,000 would receive \$700.

The EITC is a refundable tax credit. Workers who qualify for the EITC can get back some or all of the federal income tax that was taken out of their pay during the year. They may also get extra cash back from the IRS. Even workers whose earnings are too small to owe income tax can get the EITC. The EITC was fashioned in part to offset the regressive payroll tax burdens that low-income workers face, as well as income taxes that they may owe.

One of the EITC's principal goals is to reward low-wage workers by reducing the taxes that they pay on their earnings and by supplementing their wages; another is to bring those with full-time jobs at least up to the poverty

line. The EITC does not count benefits like cash assistance ("welfare"), Medicaid, food stamps, Social Security Income, or subsidized housing as income when determining eligibility. In 1986, Congress indexed the EITC for inflation, which it has refused to do for the minimum wage.

Who gets the EITC? In 2003, 70 percent of recipients earned less than \$20,000. Recipients are concentrated in metropolitan areas, with slightly more living in inner-ring suburbs than in cities. The additional income to these low-wage families helps improve local economic conditions, since the poor spend almost all of their money for necessities. According to a Brookings

Institution report, for example, in 2000, the EITC generated more than \$125 million in additional income to low-wage families in the Baltimore area, while in metro Chicago it brought in more than \$462 million.

The EITC offers little to families without children. In a recent report outlining a comprehensive anti-poverty agenda, the Center for American Progress recommends tripling benefits for childless workers. It also suggested expanding benefits for those with three or more children. These changes alone would reduce the number of Americans in poverty by 2 million.

Housing Conditions of the Working Poor

For most American families, housing is the largest part of their household budget. This is particularly true of the poor, who typically spend more than half of their incomes just to keep a roof over their heads.

In 2005, the 22 million households with incomes below \$19,000 represented the poorest one-fifth of the population. Among them, more than 6 million were headed by an adult who worked at least 27 weeks a year. Of these, 55 percent of households paid more than half their incomes for housing, while another 25 percent paid

between 30 percent and 50 percent of their incomes for housing. (See graph, page 11.)

The 22 million households with incomes between \$19,000 and \$35,700 represented another one-fifth of the population; more than 13 million of them earned their incomes by working at least 27 weeks a year. Among them, 15 percent paid more than half their incomes for housing, while another 36 percent paid between 30 percent and 50 percent of their incomes for housing.

In other words, there are about 12 million "working poor" families—owners as well as renters—who pay more than they can reasonably afford for housing. Despite this great need, federal housing subsidies are not an entitlement, like food stamps, public education, or the EITC.

In 2005, only 5.5 million of the 23.5 million renter households with incomes under 80 percent of median—23.4 percent of low-income families—received any housing assistance from Washington. These include the 2 million families with Section 8 vouchers as well as 1.1 million families living in public housing, another 1.3 million households living in other federally subsidized housing developments, and others living in subsidized rural housing.

Few of the most desperately poor Americans get any housing help. Only 3.2 million of the 9.7 million renter households with incomes below 30 percent of median income received any form of federal housing assistance. Only 1.2 million of the 6.3 million renter households with incomes between 30 percent and 50 percent of median income had any housing aid from the federal government. Among the 7.5 million renter households with incomes between 50 percent and 80 percent of median income, only 992,000 (13 percent) got housing subsidies.

But renters aren't the only poor families facing high housing costs. There are 26.9 million households with incomes below 80 percent of median income that own their homes. More than half of them (52 percent) pay more than 30 percent of their incomes for housing; 27.7 percent of them pay over half their incomes for housing. There are no federal housing subsidies for these low-income owners. Hardly any of them are even able to take advantage of the tax breaks that affluent homeowners take for granted. This is because their incomes are so low that they pay little or no income taxes in the first place.

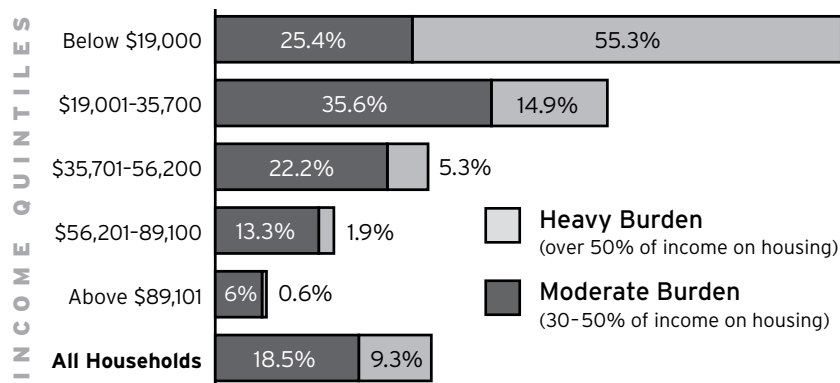
How an EITC Housing Component Would Work

To revise the EITC to address housing needs, Congress should add a housing component, tied to local housing costs. The Section 8 voucher program already does this. HUD routinely surveys rental housing conditions in every metropolitan area (and non-metro areas) to determine what it calls "fair market rents" (FMR)—typically rent levels at the 40th percentile for apartments with one, two, or more bedrooms. It does this to determine

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Housing Cost Burdens: 2005

(Households with earners who worked 27+ weeks)



Source: Data from the U.S. Census Bureau, American Community Survey 2005, provided by Dan McCue, Joint Center for Housing Studies of Harvard University. Calculations by the author.

the maximum rent levels eligible for Section 8 vouchers in different parts of the country.

A similar formula can be used to determine the size of the EITC housing supplement in each area. The Section 8 subsidy varies from area to area; it pays the difference between 30 percent of a household's income and the market rent, up to the FMR maximum. Likewise, the EITC housing supplement would vary from area to area depending on market conditions. In the Los Angeles area, where the two-bedroom FMR is \$1,189, the annual EITC housing supplement might be \$3,600—or \$300 a month. In the Baltimore area, where the two-bedroom FMR is \$950, the annual EITC housing supplement might be \$2,880—or \$240 a month. And in Jackson, Miss., where the two-bedroom FMR is \$613, the annual EITC housing supplement might be \$1,836, or \$153 a month. Because the EITC already provides workers with extra income, its housing supplement does not have to fully fund the gap between 30 percent of household income and FMRs.

The overall size of the EITC housing supplement will depend on how generous Congress wants to be. It would be useful for Congress to identify the potential cost of an EITC housing supplement at different benefit levels.

One problem with the EITC is that most families receive the credit as an annual lump sum when they get their income tax refund. Low-income families obviously need their housing subsidy on a monthly basis so they can pay the rent or the mortgage. The EITC already has a mechanism to deal with this—the “advanced payment option”—which allows workers to receive a portion of their anticipated credit from their employers as part of their regular paychecks. Currently, however, less than 1 percent of EITC recipients exercise this option. For the EITC housing program to be successful, more workers must use this option. Congress could, for example, require employers to participate in the advanced payment plan and/or the IRS could work with unions, churches, and community groups to publicize this option and get more eligible workers to use it.

EITC Compared with Section 8

Why not simply expand the existing Section 8 rental-voucher program? The answer is both programmatic and political.

One of the most attractive features of the EITC is that, in contrast to federal housing programs, it is an entitlement provided to all those who qualify and apply for it. The EITC already reaches 22 million households, compared with the Section 8 program, which serves only 1.9 million families. Some working families who claim the EITC also have a Section 8 voucher or live in other subsidized housing, but they are a small fraction of all EITC recipients. (Even so, about 10 percent to 15 percent of

families eligible for the EITC fail to claim it, a problem that can be addressed through increased outreach by the IRS, community groups, unions, and employers).

EITC includes many working families who are above the official federal “poverty” threshold of roughly \$20,000 for a family of four, but still cannot make ends meet.

The EITC is politically popular for a number of reasons. For one thing, it rewards people who work, so it does not carry the stigma attached to “welfare,” which was viewed by many politicians, editorial writers, and opinion-leaders as subsidies for the so-called “undeserving” poor. In recent years, the ranks of the working poor have swelled, in part because of the rise of low-wage jobs and in part because welfare reform, adopted in 1996, pushed many poor Americans, mostly single women with children, into the workforce.

The EITC is also popular because it is relatively invisible. It is an anti-poverty program that comes in through the back door, as a tax break, rather than through the front door as a direct grant, like food stamps, Medicaid, and welfare. It is part of what Christopher Howard, a political scientist at the College of William & Mary, calls “the welfare state nobody knows” in his new book of that title.

Politically, it has been extremely difficult for housing advocates to get Congress to maintain, much less increase, the budget for HUD's subsidized housing programs, despite the growing number of Americans living in poverty and rising housing costs.

Government-subsidized housing is still stuck with the stigma of housing of last resort, despite the fact that the United States hasn't built high-rise public-housing developments since the 1960s. To the contrary, the low-income housing built in the past few decades—much of it by private nonprofit CDCs—has been well-designed and well-managed. Yet, stereotypes persist. Housing advocates need to do a better job of changing the negative images associated with subsidized housing.

Since the 1970s, Congress has shifted spending away

from construction of new housing toward housing vouchers, which were seen as cheaper and more flexible. Even so Congress has been reluctant to significantly expand the Section 8 voucher program. It has funded only 2 million Section 8 vouchers—what some people call “housing food stamps”—to help recipients pay the rent.

According to the Center on Budget and Policy Priorities, for example, President Bush’s budget for Fiscal Year 2008 proposes to cut \$2 billion (5 percent, adjusted for inflation) from HUD. These cuts come on top of cuts made the previous two years. Under the president’s 2008 budget, total HUD funding would fall to a level that is \$4.6 billion—or 11 percent—below the 2004 levels.

Adding a housing component to the popular EITC is likely to be easier to sell than to dramatically increase the Section 8 program. Another advantage of the EITC approach is that recipients can use the money for rental or ownership housing, compared with the Section 8 voucher program, which is limited to rental housing.

Limitations

There are, however, two potential criticisms of the EITC approach that advocates will need to address.

One likely concern is that, unlike the Section 8 voucher program, which can only be used to help families pay rent, there is no guarantee that families will use the extra EITC income to pay for better housing. They could spend the money on food, transportation, clothing,

health care, or even on nonessential items. Given what we know about how the poor spend their incomes, however, it is almost certain that most of them will spend the additional income on basic necessities. And because housing is more expensive than other necessities, it is likely that most recipients will use most or all of the extra income to improve their housing conditions. They are likely to use the money to help pay their rent or to find improved housing (better condition, larger space, more convenient location) with higher rents.

The EITC could also provide low-wage working families with greater choices about where to live. It could thus help them move to opportunity without the stigma of using Section 8 vouchers, which often consigns them to living in Section 8 ghettos.

Many landlords refuse to accept tenants with Section 8 vouchers. This is especially the case in tight housing markets with low vacancy rates, where landlords can be somewhat selective. Some landlords worry that the local housing authority won’t pay them regularly or on time. Others don’t like having their apartments inspected and to meet housing-code standards to qualify to receive Section 8 funds. And some landlords simply don’t want to rent to poor people. In contrast, working families with additional income through the EITC have no stigma attached to their subsidy, since it is invisible to landlords, rental agents, and realtors.

A second likely concern is that, by design, the EITC only serves low-income families who have jobs. The Section 8 voucher program serves the working poor as well as the jobless poor, who, one might assume, have the most desperate needs. Indeed, federal rules require local housing agencies (who administer the Section 8 voucher program) to ensure that 75 percent of households newly admitted to the voucher program each year have incomes at or below 30 percent of the area median.

Since Congress passed welfare reform in 1996, a growing proportion of the poor are now working. But research has found that the carrot of EITC—more than the stick of welfare reform—has been a valuable incentive for the poor to enter the workforce.

Joblessness is the result of a combination of factors. These include the shortage of jobs in many areas; the mismatch between skills and the needs of the job market; persistent racial discrimination by many employers; the preference of single mothers to care for their young children rather than work; and the frustrations of poor people who can’t find work and sometimes give up trying. Jobless families deserve decent housing, too, and the EITC housing supplement will not provide it. For those households, some version of the Section 8 voucher program, as well as funds to expand the supply of affordable housing, will still be needed.

RESOURCES

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Even if well-funded, an EITC housing supplement won't solve all the housing problems confronting America's working poor and near-poor. It is a "demand-side" approach that helps working families pay for housing in the private market. It assumes such housing is available. But there is still a shortage of housing in many parts of the country, so we need to expand the overall supply through programs that provide funds for new construction. In particular, we need federal funds—and regulatory sticks and carrots—to promote the construction of mixed-income housing in both central cities and suburbs to avoid further isolating the poor in areas of concentrated poverty.

Seizing the Political Opportunity

America is experiencing a new Gilded Age—a frenzy of corporate mergers, widening economic disparities, and deteriorating social conditions. Today, the richest 1 percent of Americans—those 1.5 million people with incomes over \$348,000—has 22 percent of all income and about 40 percent of all wealth. This is the biggest concentration of income and wealth since 1928. In 2005, average CEO pay was 369 times that of the average worker, compared with 131 times in 1993 and 36 times in 1976. At the pinnacle of America's economic pyramid, the 400 billionaires own 1.25 trillion in total net worth—the same amount as the 56 million American families at the bottom half of wealth distribution.

Meanwhile, the American Dream—the ability to buy a home, pay for college tuition and health insurance, take a yearly vacation, and save for retirement—has become increasingly elusive. A growing number of working families are in debt, while the number facing foreclosure has spiraled. American workers face declining job security as companies downsize, move overseas, and shift more jobs to part-time workers. The cost of housing, food, and other necessities is rising faster than incomes. Even two-income families have trouble making ends meet.

Between 2000 and 2005, the number of Americans in poverty grew from 31.5 million (11.3 percent of the population) to 36.9 million (12.6 percent). During that period, the number of Americans without health insurance increased from 39.8 million (14.2 percent) to 46.6 million (15.9 percent).

Under these conditions, it is not surprising that Barbara Ehrenreich's 2001 exposé about the working poor, *Nickel and Dimed*, was one of the most popular books of the past decade. During that period, growing protests against Wal-Mart—a symbol of big employers who offer workers low pay and inadequate benefits—indicate that concerns about inequality and poverty are moving from the margin to the mainstream of American politics.

A sure sign that the political climate is changing is the fact that *The New York Times Magazine* devoted the

June 10 issue to articles about inequality and poverty.

In his presidential campaign, former Senator John Edwards is focusing on dramatically reducing the nation's poverty rate and has put forward an anti-poverty agenda in speeches, position papers, and a new book, *Ending Poverty in America*. Senator Barack Obama has also released an anti-poverty plan as part of his White House bid.

There is growing political pressure to help the working poor. In response to grass-roots campaigns by unions and community organizations, more than 150 cities and counties have passed "living wage" laws since 1994, most of them in the past five years. In November 2006, voters in six states—Arizona, Colorado, Missouri, Montana, Nevada, and Ohio—approved measures to raise state minimum-wage levels by \$1 to \$1.70 an hour and index them to inflation. In Missouri, the initiative passed in every county, winning 76 percent of the statewide vote. In Montana, voters passed the minimum-wage boost by a 73-percent to 27-percent margin. In addition to these six victories, the legislatures in another 11 states—Arkansas, California, Delaware, Maine, Maryland, Massachusetts, Michigan, North Carolina, Pennsylvania, Rhode Island, and West Virginia—enacted increases in the minimum wage; six of those states were exceeding the federal rate for the first time. This year, four states—Iowa, Kentucky, New Hampshire, and New Mexico—did so. As a result, 33 states and the District of Columbia have now passed legislation or approved ballot initiatives raising their state minimums above the federal minimum.

Polls show that a vast majority of Americans want to raise the federal minimum wage, which has been stuck at \$5.15 an hour since 1997—its lowest amount, in inflation-adjusted dollars, in more than 50 years. Since winning a majority in Congress in 2006, the Democrats pledged to hike the federal minimum wage. In May, President Bush reluctantly signed a bill increasing the minimum wage to \$7.25 over two years. That figure, however, is only about 40 percent of the average wage. In July, Edwards called for gradually increasing the minimum wage to \$9.50 an hour by 2012 and indexing it to inflation. Polls also show that support for labor unions has reached its highest level in more than three decades. Within the labor movement, there is an increasing emphasis on organizing, especially among workers in low-wage sectors, such as hospital workers, janitors, security guards, nurses, and hotel employees.

In this political climate, housing activists should join with the labor movement, community organizing groups, religious congregations, and children's advocates to seize the growing momentum for lifting the working poor out of poverty. As a part of that mission, it makes sense for housing activists to work together with anti-poverty allies to add a housing supplement to the EITC. ♦

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